



November 7, 2024

**TO:** LOCSD Board of Directors  
**FROM:** Ron Munds, General Manager  
**SUBJECT:** **Agenda Item 7A – 11/07/2024 Board Meeting**  
Review and Tentative Support of the 2025 Solid Waste Rate Request and Review of the Recommended Changes to the Solid Waste Rate Setting Methodology.

**President**  
Marshall E. Ochylski

**Vice President**  
Christine M. Womack

**Directors**  
Charles L. Cesena  
Matthew D. Fourcroy  
Troy C. Gatchell

**General Manager**  
Ron Munds

**District Accountant**  
Robert Stilts, CPA

**Unit Chief**  
John Owens

**Battalion Chief**  
Paul Provence

**Mailing Address:**  
P.O. Box 6064  
Los Osos, CA 93412

**Offices:**  
2122 9<sup>th</sup> Street, Suite 110  
Los Osos, CA 93402

**Phone:** 805/528-9370  
**FAX:** 805/528-9377

[www.losososcsl.org](http://www.losososcsl.org)

## **DESCRIPTION**

Mission Country Disposal (subsidiary of Waste Connections Inc.) submitted a rate increase request in early July 2024 as required by the 1994 Rate Setting Manual. Per the manual, Mission Country Disposal provides detailed information to the District every three years to determine the base-year rates. During the two interim years between the base-year application, CPI increases can be requested by the hauler.

On a parallel path, the District and the City of San Luis Obispo contracted R3 Consulting Group to look at changing the solid waste rate setting methodology since it has been generally recognized that the current methodology is dated and in need of revisions.

This report summarizes the key results of the 2025 rate analysis, the recommended new rate setting methodology and the impact on current and future rates found in the attached consultant report.

## **STAFF RECOMMENDATION:**

***Motion: I move that the Board***

- 1. Tentatively support the 2025 solid waste rates as presented.**
- 2. Approve the publication and mailing of a notice consistent with Article XIII D of the California Constitution and the Proposition 218 Omnibus Implementation Act (Proposition 218) as it relates to solid waste rates.**
- 3. Set a hearing date of January 11, 2025 to consider the adoption of the solid waste rates if there is not a majority protest in accordance with Proposition 218.**
- 4. Tentatively support the new rate setting methodology to be implemented in 2026 pending revisions to the franchise agreement.**

## **DISCUSSION**

### **Background**

The County of San Luis Obispo transferred the Solid Waste Franchise Agreement to the District in April 2022. Through the terms of the Franchise Agreement, Mission Country Disposal (MCD) is entitled to compensation for its "labor, equipment, materials and supplies, taxes, insurance, bonds, overhead, transfer and transport, processing, division, disposal, provide and all other things necessary to perform all of the services required by [the] Agreement." This

compensation is received through the rates and charges paid by the District's customers, which are presented to the District through cost-based rate adjustment applications and reviewed by the Board through the Proposition 218 process.

Per the Franchise Agreement, rates are reviewed in accordance with the "City of San Luis Obispo Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates" which was originally established in 1994 (1994 Rate Manual). The 1994 Rate Manual allows for a cost-based rate adjustment every three years and interim rate adjustments in the other two years. In interim rate periods, the operator is limited to adjustments based on inflation, tipping fee adjustments, and franchise or regulatory fee changes.

If you recall, during the transfer time frame, the County processed the base year rate application from MCD since it was submitted in October 2021. After careful evaluation, the County approved, with District support, a rate increase of 41.87%. Because of the delays in processing the rate application, the 1994 Rate Manual allows for retroactive increases caused by the delay, so an additional temporary increase of 55.74% was added onto the requested rates for a total increase of 97.61%.

The original intent of the 1994 Rate Manual methodology was to provide transparency to the public on revenue versus expenses and how much profit the hauling company was entitled to. The goal of the methodology was to keep rate increases fair and reasonable and strive to control large rate increases while providing the hauling company with the allowed profit under the agreement. An indicator that the current methodology needs updating is that over the last nine years, solid waste rates in Los Osos have ranged from 1% in 2017 to 41.87% in 2022.

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
2.00%	10.37%	1.00%	1.60%	25.74%	1.70%	0.70%	41.87%	7.70%	2.70%

Similarly, Mission Country Disposal unit (Los Osos, Cayucos & Cambria) has been operating at a deficit for many years.

Business Unit	2018	2019	2020	2021	2022	2023	2024	2025
Mission Country Disposal	-19.26%	-30.77%	-9.28%	-19.84%	-10.21%	2.47%	-4.09%	-8.95%

On a parallel path, the District and the City of San Luis Obispo (City) contracted R3 Consulting Group to look at changing the solid waste rate setting methodology in early 2024. The key objectives for updating the rate adjustment methodology were to enhance rate stability, predictability, fairness, transparency, ease of administration, and cost effectiveness. Interest in revising the rate setting methodology expanded to the remaining eight agencies served by Waste Connections. These agencies joined the effort in May 2024. R3 has been working with each agency to provide information to assist in understanding the proposed new rate setting methodology. A comprehensive report prepared by R3 is attached to this report and highlights are presented in the following sections.

### 2025 Base Year Rate Adjustments Summary

Mission Country Disposal submitted a base year rate application using the 1994 Rate Manual methodology in early July 2024. The requested rate increase is 12.47%. The application project projected 2025 costs for providing solid waste services based on the actual of providing services as follows:

- Actual results for the most recently completed year (2023), which are based on the audited financial statements.
- Projected results for the current year (2024), which are to be based on year-to-date information available at the time the application is submitted.

- Projected results for the next year (2025).

Adjustments to the rates were then calculated based on the projected 2025 revenue requirements. R3 thoroughly reviewed the figures in the rate application, as well as supporting documentation required of Waste Connections during their review process and found they were accurate and in accordance with the 1994 Rate Manual.

**Factors affecting 2025 Rate Adjustments**

The largest contributors to the overall increase are:

- Increases in organics processing costs
- Increases in landfill disposal costs (tipping fee increases from \$41 per ton to \$70)
- Collection costs including labor, vehicles, operating expenses and overhead

Overall, collection services comprise the single largest component at 56% with post-collection services next at 29% (more details are in the attached report starting on page 10).

**Revisions for New Rate Adjustment Methodology**

The City of San Luis Obispo (City) acted as lead agency in negotiating the new rate setting methodology with support from the regional agencies. The elements of those negotiations were applied to the 2025 rate application. Pending Board approval, the new methodology will replace the 1994 Rate Manual and will regulate annual rate adjustments for the District’s solid waste rates starting in 2026. The following revisions to the 2025 base year rate adjustments were made (more details are in the attached report starting on page 11):

- Update depreciation lifespan for trucks
- Removed limitation on corporate overhead
- 50% cost share for regional service enhancements
- Updated profit allowance (phased in increase from 7% with 9% in 2025 to 10% in 2026)
- Total revisions for new rate adjustment methodology starting in 2026

The rate increase using the recommended rate adjustment factors is 13.18%. Though higher than the original rate adjustment request, the following section explains the long-term benefits of moving to a new rate adjustment methodology.

A summary of changes in residential rates at the 13.18% rate adjustment are shown in the table below.

<b>Service Description</b>	<b>Current Monthly Rate Effective 1/1/2024</b>	<b>Proposed Rate Adjustment</b>	<b>Proposed Monthly Rate Effective 1/1/2025</b>
20 Gallon Waste Wheeler	<b>\$27.74</b>	\$3.66	<b>\$31.40</b>
32 Gallon Waste Wheeler	<b>\$39.45</b>	\$5.20	<b>\$44.65</b>
64 Gallon Waste Wheeler	<b>\$60.57</b>	\$7.98	<b>\$68.55</b>
96 Gallon Waste Wheeler	<b>\$64.96</b>	\$8.56	<b>\$73.52</b>

### **New Rate Adjustment Methodology**

As stated, during the City and Waste Connections negotiations for a new franchise extension, the City negotiated a new methodology for adjusting rates starting in 2026 which were consistent with the terms discussed by the regional group. The features of the new methodology include (more details are provided in the attached report starting on page 18):

**CPI Adjustments:** Starting in 2026, rate adjustments will be based on the Garbage and Trash CPI, with a floor of 2% and a cap of 5%. Amounts under 2% or over 5% will carry forward. The CPI adjustment will apply to Waste Connections' collection and post-collection cost centers.

**Revenue Balancing Mechanism:** Starting in 2027, adjustments to rates will account for shortfalls or surpluses in Waste Connections' actual revenues compared to projected revenues from prior years. For example, if Waste Connections' 2025 revenues exceed projections, the amount of surplus revenues will be credited to the rates in 2027 (and vice versa), achieving fairness in compensation and rates for the company and for ratepayers. Such adjustments would take place annually and will be independent of the CPI cap and floor noted above. It should be noted that SCSS's 2023 net income was such that, were a revenue balancing mechanism in place at the time, surplus revenues would have been carried forward to the 2025 rate year and would have offset the forthcoming rate adjustment. There's no cap on these amounts.

**Updated Profit Allowance:** As stated previously, the 2025 rate adjustments includes a 9% profit allowance of projected collection costs, increasing to 10% in 2026.

**Less Frequent Cost-Based Adjustments:** Currently, solid waste rates are adjusted based on the 1994 Rate Manual every three years on Waste Connections' costs. Via the new methodology, cost-based adjustments would occur a maximum of every five years, and only if requested by Waste Connections or the City. The first opportunity for a cost-based adjustment will be for the 2030 rate year. If neither Waste Connections nor the City request a cost-based adjustment, then the CPI adjustment approach will be applied. Cost-based adjustments will be based on Waste Connections' consolidated audited financial statements for the region. Timeframes for cost-based adjustment application and review process will be ample, such that the City will have sufficient time for review and approval processes and such that the potential for delay in implementation is minimized. These timeframes will be delineated in the forthcoming amendments to the agreement with Waste Connections.

**Updated Profit Allowance:** The 2025 rate adjustment will include a 9% profit allowance of projected collection costs and in 2026 and thereafter the profit allowance will be 10%. The updated profit allowance is in-keeping with industry standard ranges for solid waste services. For context, the 2025 profit allowance is approximately 5% of revenues and R3 estimates that the 2026 profit allowance will be approximately 5.5% of revenues.

**Removed Limitation on Corporate Overhead:** The 1994 Rate Manual placed a limitation on corporate overhead costs. Today, corporate overhead costs fund legal, tax, payroll, human resources, engineering, compliance, IT, training and recruiting programs. The City and Waste Connections agreed to remove the prior limitations in order to fund these services. In the near-term, compensation to Waste Connections for corporate overhead will be limited by the CPI adjustment noted above. Cost-based adjustments to corporate overhead are possible in 2030, and will be subject to review, justification, and potential limitation at that time.

**Extraordinary Adjustments:** During CPI Adjustment years, Waste Connections may request extraordinary rate adjustments due to changes in law affecting collection operations.

### **Regional Service Enhancements**

- **Customer Assistance Program:** 20% low-income discount provided to residential customers using 20-gallon cart service, using existing jurisdictional practices on low-income relief for their offered utility type services with evidence of qualifying financial hardship.

- **Free Bulky Waste Collections:** Collection of a bulky waste item twice annually from residential accounts at no cost via bi-annual clean-up weeks.
- **Annual Cart Exchange:** Once annual exchange of a residential solid waste, recycling, or organics cart per customer account.

### **Franchise Agreement Amendments**

The District will need to make revisions to the Franchise Agreement. If the Board approves moving forward, those revisions will be brought to the January Board meeting for consideration and approval.

### **Summary**

Though the recommended 2025 rate increase of 13.18% is higher than the increase using the current methodology (12.47%) and the recommended changes to the factors discussed in the R3 report, the long-term result of the change will provide enhanced rate stability, predictability, fairness, transparency, ease of administration, and cost effectiveness. District customers will also benefit from the enhanced services. Using the CPI model will greatly reduce the time District staff and Board will spend on processing rate applications under the current methodology while providing long-term savings to our customers.

### **Attachment**

R3 Report on the 2025 Rate Adjustment and New Rate Setting Methodology

# REPORT

City of San Luis Obispo and Participating Agencies

## New Solid Waste Rate Adjustment Methodology and 2025 Rates

*Submitted electronically: November 1, 2024*



November 1, 2024

Ms. Meg Buckingham  
Solid Waste and Recycling Coordinator  
Public Utilities  
879 Morro, San Luis Obispo, CA 93401  
*submitted via email: mbuckin@slocity.org*

**SUBJECT: New Solid Waste Rate Adjustment Methodology and 2025 Rates**

Dear Ms. Buckingham and Participating Agencies,

R3 Consulting Group, Inc. (R3) was engaged by the City of San Luis Obispo (City) to provide solid waste consulting services via two engagements supporting the City's negotiations of a new solid waste services agreement with Waste Connections, the solid waste hauler. R3 was originally engaged by the City to work in collaboration with Los Osos Community Services District and Waste Connections to update the methodology for annual adjustments to the solid waste rates charged by Waste Connections. The key objectives for updating the rate adjustment methodology were to enhance rate stability, predictability, fairness, transparency, ease of administration, and cost-effectiveness.

As that engagement proceeded, eight other agencies in San Luis Obispo County (the City of Arroyo Grande, the City of Grover Beach, the City of Pismo Beach, Avila Beach Community Services District, Cambria Community Services District, Cayucos Sanitary District, Nipomo Community Services District, and Oceano Community Services District – altogether "Participating Agencies" or "Agencies") were included as stakeholder participants in the development of new rate adjustment methodology. With the inclusion of these additional Agencies, objectives for the engagement were updated to include regional scale applicability of the new rate adjustment methodology. R3 was then engaged by the City to review Waste Connections' rate adjustment requests for the 2025 rate year on behalf of all ten Agencies with the objective of determining 2025 solid waste rates that would be an appropriate starting point for a new rate adjustment methodology starting in 2026.

The City of San Luis Obispo served as the lead contracting agency for both engagements, providing primary oversight and direction of R3's work. Input and feedback were also sought from the other nine Agencies, and the results reflect their stakeholder input. Ultimately, the outcomes of both engagements are the conclusion of good faith contract negotiations between the City and Waste Connections. In summary, the City and Waste Connections have tentatively agreed to updated terms and conditions for annual rate adjustment which fulfill key objectives while also securing enhanced services that will protect low income households, prevent illegal dumping, and clean solid waste collection containers. The new rate adjustment methodology and enhanced services also resulted in updated adjustments to solid waste rates for 2025.

The City intends to recommend a new agreement with Waste Connections to the City Council that will include the new rate adjustment methodology and enhanced services along with the 2025 adjustments to solid waste rates. In keeping with the objective for the results to be applicable on a regional scale, Waste Connections is willing to offer the new rate adjustment methodology and

select enhanced services to the other nine Agencies at the updated 2025 adjustments to solid waste rates.

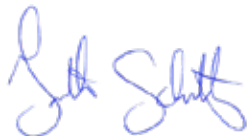
R3 would like to recognize that this has been a significant undertaking, and we'd like to thank the City of San Luis Obispo, Waste Connections, Los Osos Community Services District, and Participating Agencies for your involvement in providing feedback during this process. In closing, R3 recommends City and stakeholder consideration of the revised 2025 rates and the new rate adjustment methodology as a means of achieving shared rate fairness, stability, and predictability objectives. Here's what Waste Connections has shared regarding the outcomes:

*“San Luis Garbage (SLG) had the opportunity to negotiate with the City of San Luis Obispo on the re-write of the 1994 rate-making manual. The goal of this endeavor was to simplify and streamline the rate-making process for all parties and provide an improved model going forward for potential refuse collection rate changes. The process included a considerable amount of discussion and analysis and although arduous at times, SLG feels the negotiations were performed in good faith, were collaborative in nature and carried out with mutual respect. In addition to updating the rate-making methodology, both parties took the opportunity to establish some new service enhancements that will discourage illegal dumping, provide cart cleaning exchanges, and offer rate relief for low-income customers. SLG believes the outcome of the negotiation has provided a much-improved rate-review process for the City of San Luis Obispo and other cities currently under the old rate-making methodology which will ultimately allow for an easier path to fair and reasonable rates for all customers.”*

\* \* \* \* \*

We appreciate the opportunity to be of service to the City and would like to thank the City and the Participating Agencies for their involvement and feedback. We would also like to recognize Waste Connections staff for being communicative and responsive to requests for information during the process.

Sincerely,



Garth Schultz | *Principal*  
**R3 Consulting Group, Inc.**  
510.292.0853 | [gschultz@r3cgi.com](mailto:gschultz@r3cgi.com)



# TABLE OF CONTENTS

1. **Executive Summary**  
page 1



2. **Background**  
page 4



3. **New Solid Waste Rate Adjustment  
Methodology and 2025 Rates**  
page 10



## **Attachments**

- 1 Summary of Original 2025 Base Year Rate Adjustments
- 2 Revised 2025 Rate Adjustments
- 3 CPI-U for Garbage and Trash
- 4 Example Rate Calculations for 2026 through 2029

# 1. EXECUTIVE SUMMARY

## New Rate Adjustment Methodology

The City of San Luis Obispo, in its capacity as the lead agency on the solid waste rate adjustment methodology update process, and in partnership with Los Osos Community Services District and Waste Connections, completed negotiations and arrived at tentative agreement with Waste Connections regarding the terms and conditions of a new methodology. The outcome was the result of extensive good faith negotiations between the City and Waste Connections, with due consideration to input provided by other public agency stakeholders.

**Pending City Council approvals, the new methodology will replace the 1994 Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates (1994 Rate Manual) and will regulate annual rate adjustments for the City's solid waste rates starting in 2026.**

The new methodology fulfills key objectives established by the City and Waste Connections, including rate stability, predictability, fairness, transparency, ease of administration, and cost-effectiveness. Additionally, in response to requests by other Agencies that contract with Waste Connections in San Luis Obispo County, the new methodology can be applied on a regional-scale and is available as recommended alternative to the 1994 Rate Adjustment Manual for those Agencies.

The key features of the new methodology include:

- › **CPI Adjustments:** Starting in 2026, rate adjustments will be based on the Garbage and Trash CPI, with a floor of 2% and a cap of 5%. Amounts under 2% or over 5% will carry forward. The CPI adjustment will apply to Waste Connections' collection and post-collection cost centers.
- › **Revenue Balancing Mechanism:** Starting in 2027, adjustments to rates will account for shortfalls or surpluses in Waste Connections' actual revenues compared to projected revenues from prior years. For example, if Waste Connections' 2025 revenues exceed projections, the amount of surplus revenues will be credited to the rates in 2027 (and vice versa), achieving fairness in compensation and rates for the company and for ratepayers. Such adjustments would take place annually and will be independent of the CPI cap and floor noted above (there is no cap on these amounts).
- › **Less Frequent Cost-Based Adjustments:** Currently, solid waste rates are adjusted based on the 1994 Rate Adjustment Manual every three years on Waste Connections' costs. Via the new methodology, cost-based adjustments would occur a maximum of every five years, and only if requested by Waste Connections or the City. The first opportunity for a cost-based adjustment will be for the 2030 rate year. If neither Waste Connections nor the City request a cost-based adjustment, then the CPI adjustment approach will be applied. Cost-based adjustments will be based on Waste Connections' consolidated audited financial statements for the region. Timeframes for cost-based adjustment application and review process will be ample, such that the City will have sufficient time for review and approval processes and such that the potential for delay in implementation is minimized. These timeframes will be delineated in the forthcoming amendment to the agreement with Waste Connections.
- › **Updated Depreciation Lifespan for Trucks:** The 1994 Rate Manual set a 7-year depreciation schedule for solid waste collection trucks. Modern solid waste collection trucks have a 10-year lifespan, and the depreciation schedule was adjusted accordingly.
- › **Updated Profit Allowance:** The 2025 rate adjustment will include a 9% profit allowance of projected collection costs and in 2026 and thereafter the profit allowance will be 10%. The updated profit allowance is in-keeping with industry standard ranges for solid waste services. For

context, the 2025 profit allowance is approximately 5% of revenues and we estimate that the 2026 profit allowance will be approximately 5.5% of revenues. Profit will not be allowed on post-collection costs.

- › **Removed Limitation on Corporate Overhead:** The 1994 Rate Manual placed a limitation on corporate overhead costs. Today, corporate overhead costs fund legal, tax, payroll, human resources, engineering, compliance, IT, training and recruiting programs. The City and Waste Connections agreed to remove the prior limitation in order to fund these services. In the near-term, compensation to Waste Connections for corporate overhead will be limited by the CPI adjustment noted above. Cost-based adjustments to corporate overhead are possible in 2030, and will be subject to review, justification, and potential limitation at that time.
- › **Extraordinary Adjustments:** The California Air Resources Board (CARB) Advanced Clean Fleets (ACF) regulation is requiring all solid waste collection trucks to have zero emissions by 2042. This includes a phased in plan to get the percentage of the fleet to be zero emission vehicle (ZEV) with 10% by 2030, 25% by 2033, 50% by 2036, 75% by 2039 and 100% by 2042. During CPI Adjustment years, Waste Connections may request extraordinary rate adjustments due to changes in law affecting collection operations, including for compliance with CARB's ACF zero emission mandate (which may necessitate change to depreciation schedules). The City may, but is not obligated to, consider requests for extraordinary rate adjustments due to changes in law affecting post-collection operations. Requests for extraordinary change are subject to good faith negotiations between City and Waste Connections.

## New Service Enhancements

During negotiations, the City and Waste Connections also took the opportunity to establish new service enhancements that will discourage illegal dumping, provide cart cleaning exchanges, and offer rate relief for low-income customers. The below service enhancements are available to the other Agencies that approve the new rate adjustment methodology in association with adjusted 2025 solid waste rates:

- › **Customer Assistance Program:** 20% low-income discount provided to residential customers using 32-gallon cart service, using existing jurisdictional practices on low-income relief for their offered utility type services with evidence of qualifying financial hardship.
- › **Free Bulky Waste Collections:** Collection of a bulky waste item twice annually from residential accounts at no separate cost, via clean-up week or voucher program depending on existing program.
- › **Annual Cart Exchange:** Once annual exchange of a residential solid waste, recycling, or organics cart per customer account.

## 2025 Rate Adjustments

As a result of the above, Waste Connections' 2025 rate adjustment request was revised from a 9.29% increase to a 9.89% increase in solid waste rates, effective January 1, 2025 (and prior to other rate structure adjustments that the City and Waste Connections may enact). When the new rate methodology changes and service enhancements are equally applied to the other regional Agencies, the results are as shown in Table 1 on the following page. Additional details are included in Section 3 of this report.

**Table 1: 2025 Rate Adjustments**

<b>Agency</b>	<b>Original</b>	<b>Revised</b>
City of San Luis Obispo	9.29%	9.89%
City of Arroyo Grande	3.97%	4.92%
Los Osos CSD	12.47%	13.18%
City of Pismo Beach	3.97%	4.82%
Cambria CSD	12.78%	12.59%
City of Grover Beach	3.97%	5.02%
Nipomo CSD	3.23%	5.04%
Oceano CSD	3.76%	4.98%
Cayucos SD	12.47%	14.32%
Avila Beach CSD	3.97%	4.60%

## 2. BACKGROUND

### 1994 Rate Manual

The 1994 Rate Manual is a 120-page document that provides step-by-step directives regarding annual adjustments to solid waste rates in the City. Though the 1994 Rate Manual specifically references the City of San Luis Obispo, other agencies in San Luis Obispo County (including the nine Agencies referenced in this report) also follow the 1994 Rate Manual for annual adjustments to solid waste rates.

The 1994 Rate Manual established a three-year cycle for adjustments to solid waste rates. The first year of each three-year cycle (called a “base year”) adjusted rates based on the documented costs of providing solid waste services. In the second and third years, solid waste rates were adjusted in accordance with external indicators, such as the Consumer Price Index (CPI).

While the 1994 Rate Manual was an appropriate approach to annually adjusting solid waste rates at the time, changing regulatory conditions and modern best practices in solid waste rate setting indicate that the prior approach has outlived its usefulness. In particular, cost-based adjustments on a fixed three-year cycle are no longer the industry norm. Most solid waste rate adjustment methodologies in California today either do not include regular cost-based adjustments or do so less frequently. When allowed, cost-based adjustments are typically the result of extraordinary changes in cost due to factors like changes in law or other uncontrollable factors (such as China’s National Sword Policy in 2017 and the COVID pandemic in 2020). Additionally, step-by-step instructions and timelines in the 1994 Rate Manual are outdated and do not contemplate current approaches to public noticing, public hearings, and review timelines for authorizing rate adjustments.

### RFQ for New Rate Adjustment Methodology

Recognizing the limitations of the 1994 Rate Manual, the City and Los Osos Community Services District issued a request for quotes (RFQ) in early 2024 seeking a consultant to develop a new rate adjustment methodology. Pursuant to the RFQ process, R3 was awarded an agreement to provide support in developing a new rate adjustment methodology.

### Rate Adjustment History

Rate adjustments experienced by the City and participating Agencies have varied significantly in the prior ten years from 2015 through 2024, as shown in Table 2, on the following page. As shown in the table, rate adjustments by agency have varied from 0% (most Agencies in 2015) to over 20% (most Agencies in 2022).

There are important reasons for these variances, primarily related to the unfunded State mandates of SB 1383 (Short-lived Climate Pollutants Act) which required all agencies in California to implement programs to recover and recycle organic waste to reduce methane emissions from landfills. While rate adjustments were necessary to fund the required SB 1383 programs, the combination of new costs with the three-year cost-based adjustment approach in the 1994 Rate Manual resulted in rate adjustment spikes in 2016, 2019, and 2022. Overall, across the Agencies, the average annual rate adjustment from 2015 through 2024 has been 6.76%.

One important objective of the new rate adjustment methodology is to minimize the recurrence of such spikes by reducing the frequency of cost-based rate adjustments. From R3’s experience implanting new rate methodologies with other clients, the result has been stable and predictable annual rate adjustments.

**Table 2: 2015 – 2024 Rate Adjustments by Agency**

Agency	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
City of San Luis Obispo	0.00%	5.25%	1.00%	1.60%	13.70%	1.70%	0.70%	17.75%	9.10%	3.00%
City of Arroyo Grande	0.00%	3.25%	1.00%	1.60%	10.06%	1.70%	0.70%	22.19%	9.10%	3.00%
Los Osos CSD	2.00%	10.37%	1.00%	1.60%	25.74%	1.70%	0.70%	41.87%	7.70%	2.70%
City of Pismo Beach	0.00%	3.25%	1.00%	1.60%	10.06%	1.70%	0.70%	22.19%	9.10%	3.00%
Cambria CSD	1.92%	9.93%	1.00%	1.60%	25.32%	1.70%	0.70%	41.50%	9.10%	3.00%
City of Grover Beach	0.00%	3.25%	1.00%	1.60%	10.06%	1.70%	0.70%	22.19%	9.10%	3.00%
Nipomo CSD	0.00%	0.00%	1.00%	1.60%	15.08%	1.70%	0.70%	21.27%	9.10%	3.00%
Oceano CSD	0.00%	3.25%	1.00%	1.60%	10.06%	1.70%	0.70%	21.03%	9.10%	3.00%
Cayucos SD	2.00%	27.39%	1.00%	1.60%	26.43%	1.70%	0.70%	43.30%	9.10%	3.00%
Avila Beach CSD	0.00%	3.25%	1.00%	1.60%	10.06%	1.70%	0.70%	22.19%	9.10%	3.00%

## Financial Statement History

There are three Waste Connections business units serving the ten participating Agencies (San Luis Garbage, Mission Country Disposal, and South County Sanitary Service). Each business unit prepares annual audited financial statements which are used as the basis for base year rate applications to the Agencies. R3 analyzed Waste Connections' audited financial statements for the six years from 2018 through 2023 to evaluate profit achievement, with the results summarized in Table 3, below. Table 3 also includes estimated profit achievement in 2024 (still underway) and for 2025 (prior to 2025 rate adjustments).

**Table 3: 2018 – 2023 Profit Achievement**

Business Unit	2018	2019	2020	2021	2022	2023	2024	2025
San Luis Garbage	-13.84%	-16.84%	-9.66%	-3.41%	12.47%	6.30%	-0.64%	-6.62%
Mission Country Disposal	-19.26%	-30.77%	-9.28%	-19.84%	-10.21%	2.47%	-4.09%	-8.95%
South County Sanitary Service	5.38%	1.40%	0.25%	-5.56%	5.93%	15.85%	8.43%	2.38%
Overall	-7.22%	-12.45%	-5.22%	-7.88%	4.66%	9.67%	2.61%	-3.16%

As shown in Table 3, in total across all three business units, Waste Connections operated without any net income between 2018 and 2021, with net positive profitability being achieved in 2022 and 2023. Profit achievement varied by business unit, with South County Sanitary Service consistently experiencing greater profit achievement and Mission Country Disposal consistently experiencing lesser or no profit achievement. This is one of the key reasons that rate adjustments for the Agencies served by Mission Country Disposal (Cambria Community Services District, Cayucos Sanitary District, and Los Osos Community Services District) were higher than the other Agencies in 2019 and 2022.

Table 3 also shows that projected profit achievement in 2024 will be lower than 2023, which is primarily the result of Waste Connections incurring increased landfill disposal costs (provided by a related party) and increased organics processing costs (provided by a non-affiliated third party processor). Projected profit achievement for 2025 – which, importantly, is **prior to 2025 adjustments to solid waste rates** – demonstrates no net profit for San Luis Garbage and Mission County Disposal and low net income for South County Sanitary Service. Overall, without adjustments to rates, Waste Connections service to the Agencies in 2025 will not yield net income.

It should be noted that Waste Connections allocates costs between business units based on allocation metrics that include vehicle operating hours, number of solid waste containers, and number of customer accounts. While such metrics are useful means of allocating costs, they do not necessarily represent the exact cost of providing service within a given business unit.

## Rate Comparison

R3 compared current 2024 solid waste rates for the Agencies to rates in other jurisdictions in San Luis Obispo County, Santa Barbara County, and Monterey County. The results are shown in Table 4, below and on the following page, and are organized in ascending order by 32-gallon monthly rate (common residential subscription level).

**Table 4: Regional Comparison of Monthly Rates**

Agency	20 Gallon	32 Gallon	64 Gallon	96 Gallon	2 Cubic Yards
Oceano CSD	N/A	\$20.37	\$29.31	\$57.39	\$128.75
San Luis Obispo	\$14.74	\$23.53	\$47.06	\$70.59	\$185.21
Pismo Beach	N/A	\$23.76	\$47.56	\$71.33	\$166.02
Grover Beach	N/A	\$24.23	\$32.74	\$41.23	\$147.95
Arroyo Grande	N/A	\$27.33	\$35.52	\$43.73	\$167.65
Nipomo CSD	N/A	\$27.57	\$39.52	\$51.81	\$136.62
Avila Beach CSD	N/A	\$28.31	\$46.78	\$65.24	\$177.68
Santa Barbara County Zone 4 Lompoc	N/A	\$31.41	\$36.13	\$40.70	\$179.98
Cayucos SD	N/A	\$32.60	\$38.52	\$44.48	\$184.32
Santa Barbara County Zone 5	N/A	\$33.03	\$37.84	\$42.46	\$192.87
City of Atascadero	N/A	\$33.67	\$52.80	\$66.35	\$172.24
San Miguel	N/A	\$34.13	\$53.80	\$72.88	\$124.12
Santa Barbara County Zone 4 Santa Ynez	N/A	\$34.33	\$42.62	\$50.77	\$254.11
City of Morro Bay	\$22.21	\$35.54	\$71.07	\$106.63	\$265.30
Svang	N/A	\$36.28	\$45.20	\$54.69	\$256.55

Agency	20 Gallon	32 Gallon	64 Gallon	96 Gallon	2 Cubic Yards
Goleta	N/A	\$37.39	\$41.88	\$48.35	\$240.10
Templeton	N/A	\$38.73	\$54.63	\$60.41	\$149.58
Los Osos CSD	\$27.74	\$39.45	\$60.57	\$64.96	\$228.72
Buellton	N/A	\$40.51	\$48.40	\$56.38	\$281.13
Cambria CSD	N/A	\$41.52	\$83.03	\$124.55	\$201.94
King City	\$32.43	\$42.83	\$53.68	\$63.52	\$288.00
Santa Barbara County Zone 2	N/A	\$43.25	\$54.66	\$65.92	\$259.61
City of Paso Robles	\$38.15	\$43.32	\$57.42	\$63.59	\$188.36
Santa Barbara County Zone 3	N/A	\$45.22	\$51.52	\$57.75	\$215.72
MRWMD	\$38.28	\$46.54	\$72.92	\$91.20	\$277.20
City of Santa Barbara	N/A	\$48.26	\$59.82	\$71.38	\$277.66
WM Area (Formerly Mid-State)	N/A	\$48.72	\$71.31	\$93.84	\$214.46
Santa Barbara County Zone 1	N/A	\$56.60	\$62.86	\$69.25	\$256.74
Santa Maria	N/A	N/A	\$38.74	\$47.87	\$166.72

Table 4 demonstrates that solid waste rates for the City and other Participating Agencies compare favorably to others in the region. Charts 1 through 4, below and on the following pages, show the information from Table 4 in graphical format.

**Chart 1: Regional Comparison of Monthly 32-gallon Cart Rates**

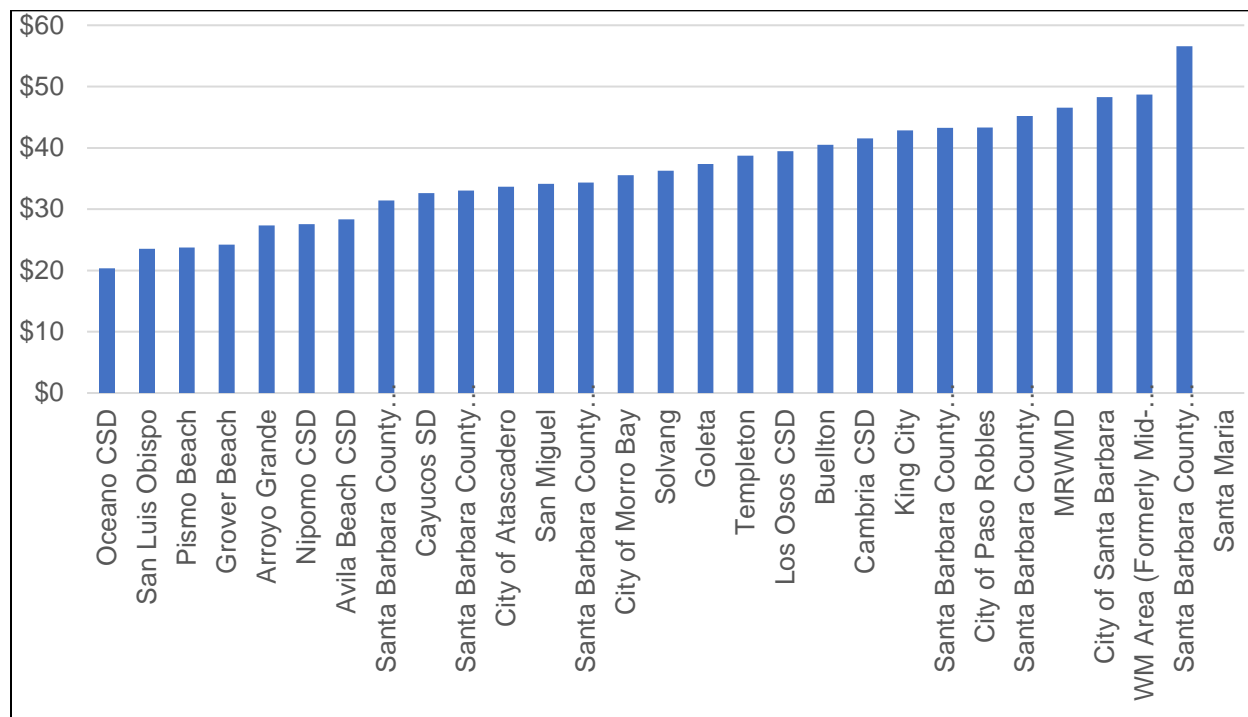
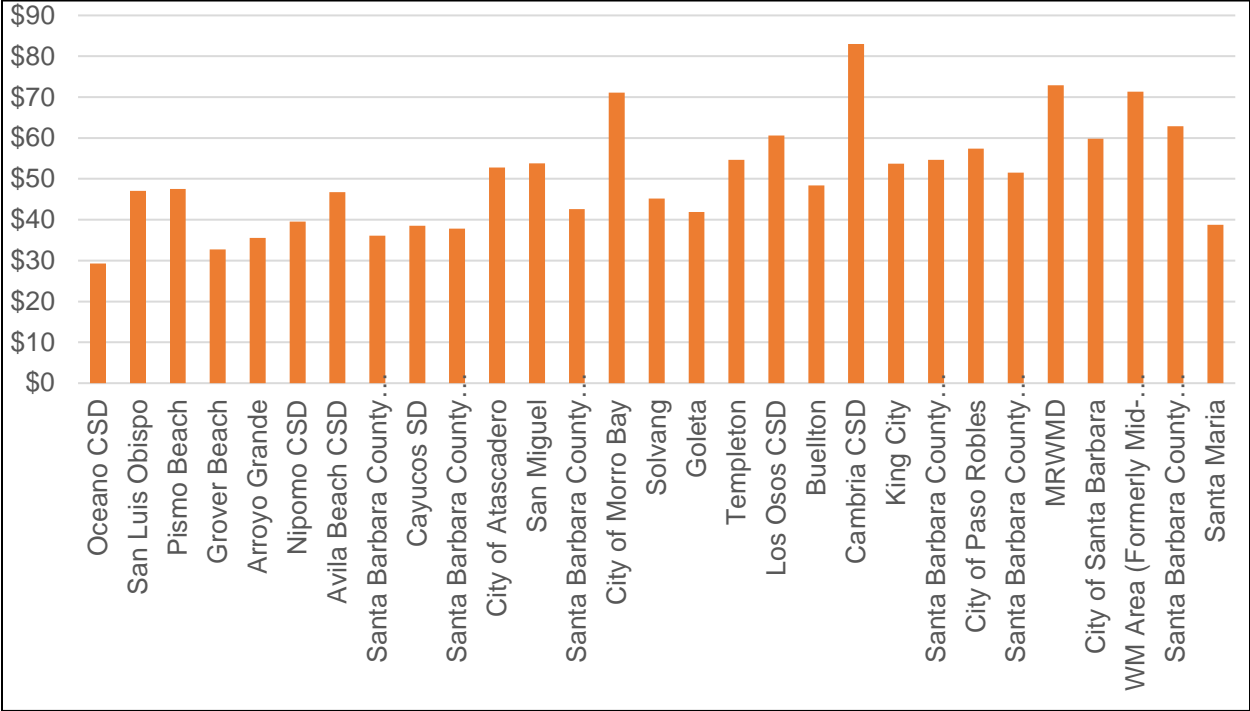


Chart 1, which is organized in ascending order of 32-gallon monthly rate, demonstrates that the rates for 32-gallon monthly service (the most subscribed residential service level) for all Participating Agencies

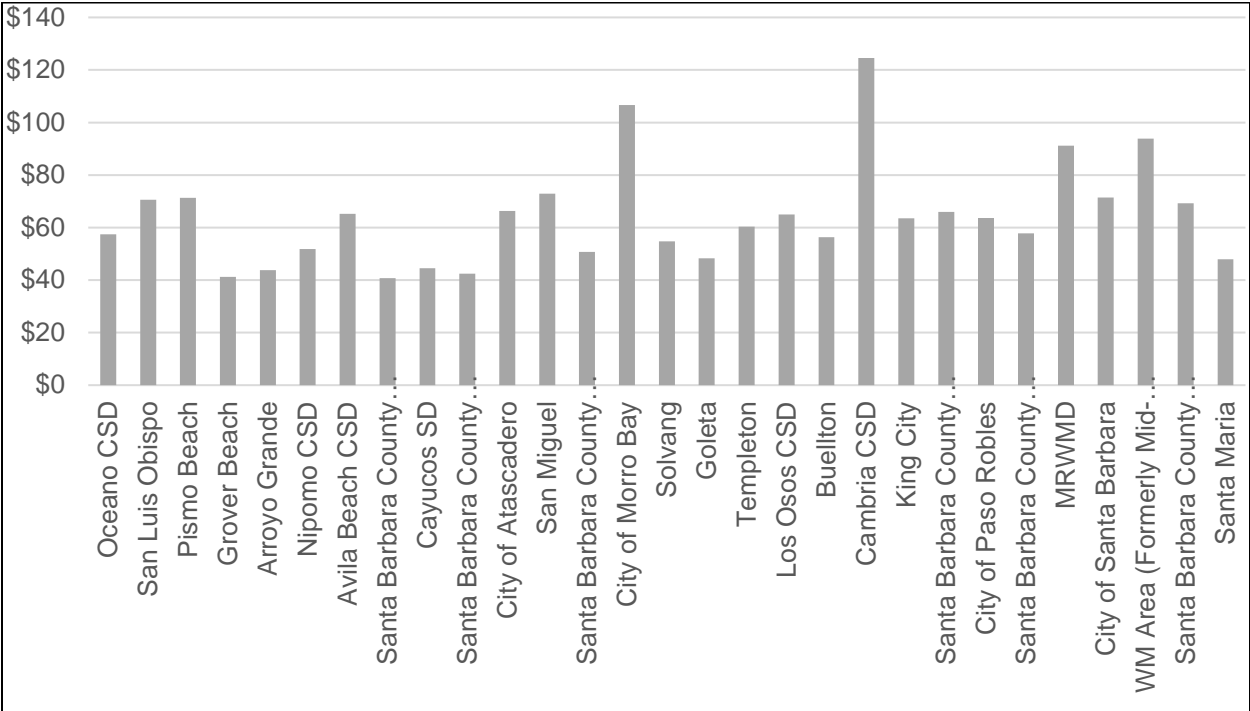


other than Cambria Community Services District, Cayucos Sanitary District, and Los Osos Community Services District are the lowest in the region. Chart 2 shows how 64-gallon monthly rates compare.

**Chart 2: Regional Comparison of Monthly 64-gallon Cart Rates**

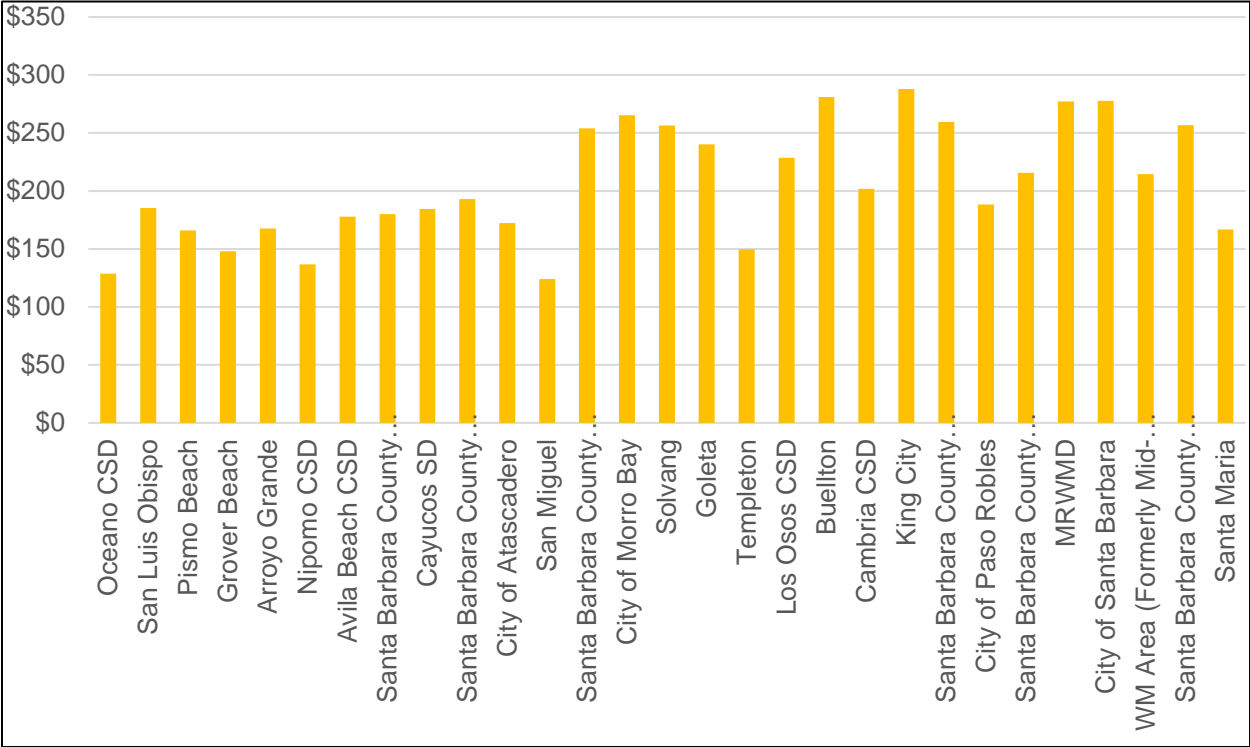


**Chart 3: Regional Comparison of Monthly 96-gallon Cart Rates**



Charts 3 and 4 keep the same ordering as Charts 1 and 2 and show how large residential 96-gallon service and commercial two (2) cubic yard bin service compare with the region. Overall, while exceptions exist, rates for solid waste service for the City and the Participating Agencies are among the lowest in the region, including San Luis Obispo County, Santa Barbara County, and Monterey County.

**Chart 4: Regional Comparison of Monthly 2 Cubic Yard Rates**



# 3. NEW RATE ADJUSTMENT METHODOLOGY AND 2025 RATES

## 2025 Base Year Rate Adjustments

Waste Connections submitted base year rate applications to the Agencies for rates effective January 1, 2025.<sup>1</sup> Those rate applications were prepared in accordance with the 1994 Rate Manual, with modification for an effectiveness date of January 1, 2025, instead of the October 1, 2024 date that otherwise would have been the effective date given strict adherence to the 1994 Rate Manual. In simple terms, the applications project future 2025 costs for providing solid waste services based on the actual costs of providing services as follows:

- › Actual results for the most recently completed year (2023), which are based on the audited financial statements.
- › Projected results for the current year (2024), which are to be based on year-to-date information available at the time the application is submitted.
- › Projected results for the next year (2025).

Adjustments to solid waste rates are then calculated based on the projected 2025 revenue requirement, which is the sum of:

- › Allowed costs.
- › Allowable operating profit.
- › Pass through costs.

In reviewing the 2025 base year rate applications for the Agencies, R3:

- › Checked calculations for mathematical accuracy and consistency.
- › Tied projected costs back to the 2023 audited financial statements.
- › Evaluated the root causes of extraordinary changes in cost for landfilling and organics processing.
- › Reviewed 2024 revenues year to date to determine accuracy of projected revenues at current rates for 2025.
- › Proposed adjustments to solid waste collection vehicle depreciation lifetimes.

A summary of Waste Connections' original 2025 base year rate adjustments per the applications submitted to the Agencies is included as Attachment 1.

It should be noted that Waste Connections' base year rate applications are made at the business unit level (San Luis Garbage, Mission Country Disposal, and South County Sanitary Service) with no allocation of projected costs to individual Agencies served by those business units. Rather, the base year rate adjustment applications use total costs and revenues for those business units to calculate rate adjustments for the individual Agencies. For the purposes of our analysis, and as documented in Attachment 1, R3 allocated projected expenses by agency in accordance with proportion of revenues – this allocation approach is what the base year rate application achieve in practice, and the result is an exact match to the rate adjustment calculations included in the base year rate applications for each agency.

---

<sup>1</sup> Authorization of the January 1, 2025 rate adjustments are expected to occur after that date. Waste Connections will prorate adjustment amounts on customer bills to account for the timing difference.

R3 thoroughly reviewed the figures included in the 2025 rate adjustment calculations, as well as supporting documentation requested of Waste Connections during the review process and found that Waste Connections' rate applications were accurate and in accordance with the 1994 Rate Manual. The rate adjustments shown in Table 5 on the following page are the correct rate adjustments per the 1994 Rate Manual and are the default rate adjustments effective January 1, 2025, if the City and the Participating Agencies do not move forward with revisions to the 2025 rates in accordance with the new rate adjustment methodology.

**Table 5: 2025 Rate Adjustments Per 1994 Rate Manual**

Agency	January 1, 2025, Default Rate Adjustment
City of San Luis Obispo	9.29%
City of Arroyo Grande	3.97%
Los Osos CSD	12.47%
City of Pismo Beach	3.97%
Cambria CSD	12.78%
City of Grover Beach	3.97%
Nipomo CSD	3.23%
Oceano CSD	3.97%
Cayucos SD	12.47%
Avila Beach CSD	3.97%

### Revisions for New Rate Adjustment Methodology

In negotiating the terms and conditions of a new rate adjustment methodology starting in 2026, the City and Waste Connections made the following revisions to the 2025 base year rate adjustments:

#### Updated Depreciation Lifespan for Trucks

The 1994 Rate Manual set a 7-year depreciation schedule for solid waste collection trucks. Modern solid waste collection trucks have a 10-year lifespan, and the depreciation schedule was adjusted by Waste Connections accordingly. Table 6, on the following page, shows the dollar magnitude of this change and the effect on the 2025 rate adjustment, with the effect being a reduction in the rate adjustment calculation ranging from 1.33% to 1.62%, depending on agency. Differences in effect by agency are the result of business unit allocations described earlier in this report.

**Table 6: Change in Depreciation Lifespan**

	San Luis Obispo	Los Osos CSD	Cambria CSD	Cayucos SD	Arroyo Grande	Pismo Beach	Grover Beach	Nipomo CSD	Oceano CSD	Avila CSD
Original Depreciation	\$1,338,367	\$376,989	\$295,515	\$131,502	\$398,063	\$316,350	\$236,919	\$225,376	\$114,616	\$26,441
Revised Depreciation	1,125,720	317,545	248,918	110,766	336,460	267,393	200,254	190,498	96,879	22,349
Change in Calculations	(212,647)	(59,444)	(46,597)	(20,735)	(61,603)	(48,957)	(36,665)	(34,878)	(17,737)	(4,092)
<b>Effect on Rate Adjustment</b>	<b>-1.47%</b>	<b>-1.62%</b>	<b>-1.62%</b>	<b>-1.62%</b>	<b>-1.33%</b>	<b>-1.33%</b>	<b>-1.33%</b>	<b>-1.33%</b>	<b>-1.33%</b>	<b>-1.33%</b>

**Removed Limitation on Corporate Overhead**

The 1994 Rate Manual placed a limitation on corporate overhead costs. Today, corporate overhead costs fund legal, tax, payroll, human resources, engineering, compliance, IT, training and recruiting programs. The City and Waste Connections agreed to remove the prior limitation in order to fund these services. Table 7, below, shows the effect of removing the prior limitation on corporate overhead. Differences in effect by agency are the result of different original proportionate amounts of corporate overhead between Agencies. In the near-term, compensation to Waste Connections for corporate overhead will be limited by the CPI adjustment noted above. Cost-based adjustments to corporate overhead are possible in 2030, and will be subject to review, justification, and potential limitation at that time.

**Table 7: Change in Corporate Overhead**

	San Luis Obispo	Los Osos CSD	Cambria CSD	Cayucos SD	Arroyo Grande	Pismo Beach	Grover Beach	Nipomo CSD	Oceano CSD	Avila CSD
Original Corporate Overhead	\$246,296	\$46,213	\$36,226	\$16,120	\$93,625	\$74,406	\$55,724	\$53,009	\$26,958	\$6,219
Revised Corporate Overhead	430,378	80,753	63,301	28,168	163,600	130,017	97,371	92,627	47,106	10,867
Change in Calculations	184,082	34,540	27,075	12,048	69,975	55,611	41,648	39,619	20,148	4,648
<b>Effect on Rate Adjustment</b>	<b>1.28%</b>	<b>0.94%</b>	<b>0.94%</b>	<b>0.94%</b>	<b>1.51%</b>	<b>1.51%</b>	<b>1.51%</b>	<b>1.51%</b>	<b>1.51%</b>	<b>1.51%</b>

### 50% Cost Share for Regional Service Enhancements

Waste Connections is offering new service enhancement to the benefit of the City and the Agencies including:

- › Collection of a bulky waste item twice annually from residential accounts at no cost, via clean-up week or voucher program depending on existing program.
- › Once annual exchange of a residential solid waste, recycling, or organics cart per customer account.

Waste Connections has estimated the annual cost of offering these service regionally and is proposing recovery of 50% of the projected costs via the 2025 rate adjustment. The City and Waste Connections have tentatively agreed to this cost sharing as part of the new agreement and for inclusion in the 2025 rates. Waste Connections is proposing the low income discount customer assistance program without a change in rate adjustment.

Table 8, below, shows the effect of including the 50% cost sharing for these two service enhancements into the 2025 rate adjustment. Cost allocations are by percentage of accounts by agency, which is the reason for differences in the effect of rate adjustment by agency.

**Table 8: 50% Cost Share for Service Enhancements**

	San Luis Obispo	Los Osos CSD	Cambria CSD	Cayucos SD	Arroyo Grande	Pismo Beach	Grover Beach	Nipomo CSD	Oceano CSD	Avila CSD
New Annual Cart Exchange	\$26,376	\$9,889	\$7,223	\$3,623	\$11,445	\$7,566	\$8,179	\$7,987	\$3,681	\$320
Bulky Clean-up Enhancements	21,091	7,908	5,776	2,897	9,152	6,050	6,540	6,386	2,944	256
Change in Calculations	47,467	17,797	12,999	6,520	20,597	13,616	14,719	14,373	6,625	576
<b>Effect on Rate Adjustment</b>	<b>0.33%</b>	<b>0.48%</b>	<b>0.45%</b>	<b>0.51%</b>	<b>0.45%</b>	<b>0.37%</b>	<b>0.54%</b>	<b>0.55%</b>	<b>0.50%</b>	<b>0.19%</b>

### Corrections to AB 939 Fees

Agency fees, which include AB 939 Fees and Franchise Fees, are included as estimates in rate adjustment applications. Because the rate applications are at the company business unit level, and not at the individual agency level, AB 939 fees in the application are allocated to the Agencies in proportion to revenues. However, only the City of San Luis Obispo and Cayucos Sanitary District receive AB 939 Fees – therefore this was corrected in the revised 2025 rate adjustments as shown in Table 9, on the following page. Note that the values for the City of San Luis Obispo also include a correction to Franchise Fee revenues.<sup>2</sup>

<sup>2</sup> Specifically, to remove the 1994 Rate Manual’s approach to “grossing up” the calculated rate adjustment to account for the Franchise Fee by including the projected Franchise Fee payment amounts in the rate adjustment calculation itself. This approach is also recommended for the other Agencies starting with the 2026 rate adjustment.

**Table 9: Corrections to AB 939 Fees**

	San Luis Obispo	Los Osos CSD	Cambria CSD	Cayucos SD	Arroyo Grande	Pismo Beach	Grover Beach	Nipomo CSD	Oceano CSD	Avila CSD
Original Agency Fees	\$362,140	\$5,226	\$4,097	\$1,823	\$-	\$-	\$-	\$-	\$-	\$-
Revised Agency Fees	439,411	-	-	12,754	-	-	-	-	-	-
Change in Calculations	77,271 <sup>3</sup>	(5,226)	(4,097)	10,931	-	-	-	-	-	-
<b>Effect on Rate Adjustment</b>	0.54%	-0.14%	-0.14%	0.85%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

### Updated Profit Allowance

The 1994 Rate Manual, along with the Agencies agreements with Waste Connections, limits allowable profit based on an “operating ratio” of 92% or 93% of allowable collection expenses (not including post-collection disposal, processing or recycling expenses nor agency fees) depending on the agency. A 93% operating ratio is the equivalent of a 7.53% profit margin, and a 92% operating ratio is the equivalent of an 8.7% profit margin.

A key negotiation point between the City and Waste Connections was a change to the profit allowance. Ultimately, after much discussion and negotiation, the City and Waste Connections agreed that the 2025 rate adjustment will include a 9% profit allowance of projected allowable collection costs and in 2026 and thereafter the profit allowance will be 10%. The updated profit allowance is in-keeping with industry standards for solid waste services.

For context, the 2025 profit allowance is approximately 5% of revenues and we estimate that the 2026 profit allowance will be approximately 5.5% of revenues. Table 10, on the following page, shows the effect of changing the profit allowance to 9% of collection costs for all Agencies for the 2025 rate adjustments. Differences in the effect on rate adjustment are due to differences in existing profit allowances by agency, as well as differences in the depreciation, corporate overhead and new service enhancements shown in earlier tables.

<sup>3</sup> Includes adjustment to Franchise Fee to remove “grossing up” method from City’s 2025 rate adjustment calculations.

**Table 10: 9% Profit Allowance on Allowable Collection Costs**

	San Luis Obispo	Los Osos CSD	Cambria CSD	Cayucos SD	Arroyo Grande	Pismo Beach	Grover Beach	Nipomo CSD	Oceano CSD	Avila CSD
Original Profit Allowance	\$641,302	\$188,392	\$170,609	\$65,715	\$227,094	\$180,477	\$135,161	\$111,295	\$65,388	\$15,085
Revised Profit Allowance	768,515	224,623	175,993	78,382	237,649	188,618	141,665	134,797	68,490	15,714
Change in Calculations	127,213	36,231	5,384	12,667	10,555	8,141	6,504	23,502	3,102	629
<b>Effect on Rate Adjustment</b>	<b>0.88%</b>	<b>0.99%</b>	<b>0.19%</b>	<b>0.99%</b>	<b>0.23%</b>	<b>0.22%</b>	<b>0.24%</b>	<b>0.90%</b>	<b>0.23%</b>	<b>0.20%</b>

**Total Revisions for New Rate Adjustment Methodology**

Taken altogether, the revisions to the 2025 rate adjustment result in small increases to the original 2025 rate adjustment calculations. These are shown in Table 11, on the following page, and are also shown in Attachment 2.



Table 11: Overall Revisions to 2025 Rate Adjustments

	San Luis Obispo	Los Osos CSD	Cambria CSD	Cayucos SD	Arroyo Grande	Pismo Beach	Grover Beach	Nipomo CSD	Oceano CSD	Avila CSD
Original 2025 Revenue Calculation	\$15,640,734	\$4,089,595	\$3,228,699	\$1,426,540	\$4,786,646	\$3,804,059	\$2,848,911	\$2,692,832	\$1,378,241	\$317,951
Change in Depreciation	(212,647)	(59,444)	(46,597)	(20,735)	(61,603)	(48,957)	(36,665)	(34,878)	(17,737)	(4,092)
Change in Corporate Overhead	184,082	34,540	27,075	12,048	69,975	55,611	41,648	39,619	20,148	4,648
Enhanced Services	47,467	17,797	12,999	6,520	20,597	13,616	14,719	14,373	6,625	576
Updated Profit Allowance	127,213	36,231	5,384	12,667	10,555	8,141	6,504	23,502	3,102	629
Corrections to AB 939 Fees	77,271	(5,226)	(4,097)	10,931	-	-	-	-	-	-
<b>Revised 2025 Revenue Calculation</b>	<b>15,864,119</b>	<b>4,113,493</b>	<b>3,223,463</b>	<b>1,447,971</b>	<b>4,826,170</b>	<b>3,832,470</b>	<b>2,875,118</b>	<b>2,735,447</b>	<b>1,390,379</b>	<b>319,712</b>
Revenues at Current Rates	14,435,726	3,677,194	2,882,493	1,282,686	4,621,616	3,672,906	2,750,690	2,616,676	1,330,724	306,989
Shortfall	(1,428,393)	(436,299)	(340,970)	(165,285)	(204,554)	(159,564)	(124,428)	(118,771)	(59,655)	(12,724)
<b>Revised 2025 Rate Adjustment<sup>4</sup></b>	<b>9.89%</b>	<b>13.18%</b>	<b>12.59%</b>	<b>14.32%</b>	<b>4.92%</b>	<b>4.82%</b>	<b>5.02%</b>	<b>5.04%</b>	<b>4.98%</b>	<b>4.60%</b>

### Proportionality in Cost of Service

R3 analyzed the 2025 rate adjustments for adequacy with respect to the cost-of-service requirements of Proposition 218. Because the base year rate adjustment methodology is based on the documented cost of provided solid waste services as expressed in Waste Connections’ audited financial statements, we find that the current and proposed solid waste service rates will generate revenues sufficient to cover the cost-of-providing service plus a reasonable profit allowance commensurate with normal expectations in the solid waste industry.

R3 also analyzed the proposed solid waste service rates for adequacy with respect to proportionate allocation of costs among solid waste service customers. R3 found that the current (and thus also

<sup>4</sup> Rate adjustments shown include grossing up for franchise fees per 1994 Rate Manual methodology, except for San Luis Obispo.

proposed) solid waste rate structure proportionately allocates costs to service types and container sizes based on the relative differences in cost associated with the types of services provided to customers.

For example, for customers subscribing to 60- or 90-gallon cart solid waste service, the per-gallon cost-of-service for those subscribed to the larger container size (90-gallons) is proportionately less than those subscribed to the smaller container size (60-gallons). This is because solid waste service is comprised of both fixed and variable costs, with the fixed cost portion being for the cost of collection (labor, fuel, capital equipment, and other shared costs) as well as the costs related to post-collection disposal, processing, recycling and composting. Thus, the cost-of-service for the larger container size (90-gallons) has a lesser proportion of fixed costs to variable costs compared to the smaller (60-gallon) container size.

### Factors Affecting 2025 Rate Adjustments

Overall, for the Agencies and the three Waste Connections business units, the 2025 rate adjustments reflect an 8.12% increase in revenues to meet increased costs and revised profit allowances. The largest contributors to the overall increase are:

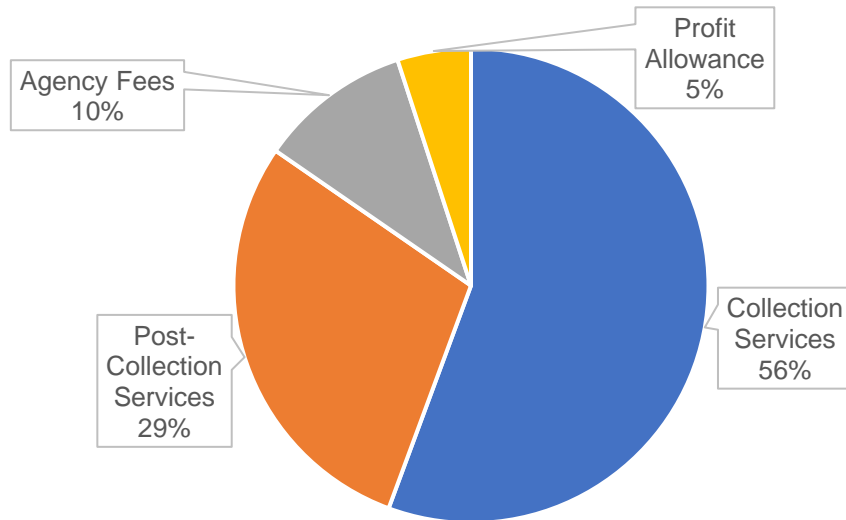
- › **Increases in organics processing costs** – Third-party costs for the organic waste post-collection processing facility operated by the company formerly named Hitachi Zosen INOVA, and which are not within Waste Connections' control, have doubled since 2022. The change in cost is the result of changes in facility capital and operating costs.
- › **Increases in landfill disposal costs** – Related party costs for landfill waste disposal at Cold Canyon have remained flat since 2016. The 2025 rate adjustment reflects a market adjustment to these costs, from a per ton tipping fee of \$41 per ton (in place since 2016) to a per ton tipping fee of \$70. Waste Connections provided market comparison demonstrating the applicability of the \$70 per ton market tipping fee.

Other factors play minor roles in the 2025 rate adjustment:

- › **Collection costs including labor, vehicles, operating expenses and overhead** – These costs are increasing in proportion to the Consumer Price Index and are projected to increase by 3.20% in 2024 and 4.21% for 2025.
- › **Agency fees** – These costs are mostly proportionate to changes in rates and are projected to increase by 2.22% in 2024 and 3.30% in 2025.

Overall, collection services comprise the single largest component overall rate funded expenses, at 56% of total rate revenues. Post-collection services are the next largest component of rate funding, at 29% of total rate revenues. Agency fees comprise 10% of rate revenues and profit allowance comprises 5% of rate revenues. This is demonstrated in Chart 5, on the following page.

**Chart 5: Summary Components of 2025 Rate Revenues**



## New Rate Adjustment Methodology

The City and Waste Connections negotiated a new methodology for adjusting rates starting in 2026, which are summarized below. R3 is preparing an exhibit to the City's new agreement with Waste Connections that will further detail the terms and conditions of the new methodology in accordance with the following points, which have been tentatively agreed to by the parties. The exhibit will be finalized and ready for distribution to the Agencies on or around November 18, 2024. It is recommended that the Agencies bring forward the exhibit as an amendment to their agreements with Waste Connections when considering the 2025 rate adjustments, which is anticipated to occur in January 2025.

The features of the new methodology include:

- › **CPI Adjustments:** Starting in 2026, rate adjustments will be based on the Garbage and Trash CPI, with a floor of 2% and a cap of 5%. Amounts under 2% or over 5% will carry forward. The CPI adjustment will apply to Waste Connections' collection and post-collection cost centers. The proposed CPI is the Consumer Price Index for all Urban Consumers for Garbage and Trash in the United States, all City average. Details and prior results for this CPI are included in Attachment 3. This is the same CPI used by Waste Connections in preparing its 2025 base year application.
- › **Updated Profit Allowance:** As stated previously, the 2025 rate adjustment includes a 9% profit allowance of projected collection costs. The City and Waste Connections have tentatively agreed that, in 2026 and thereafter, the profit allowance will be 10% of collection costs.
- › **Revenue Balancing Mechanism:** Starting in 2027, adjustments to rates will account for shortfalls or surpluses in Waste Connections' actual revenues compared to projected revenues from prior years. For example, if Waste Connections' 2025 revenues exceed projections, the amount of surplus revenues will be credited to the rates in 2027 (and vice versa), achieving fairness in compensation and rates for the company and for ratepayers. Such adjustments would take place annually and will be independent of the CPI cap and floor noted above.
- › **Less Frequent Cost-Based Adjustments:** Currently, solid waste rates are adjusted based on the 1994 Rate Manual every three years on Waste Connections' costs. Via the new methodology,

cost-based adjustments would occur a maximum of every five years, and only if requested by Waste Connections or the City. The first opportunity for a cost-based adjustment will be for the 2030 rate year. If neither Waste Connections nor the City request a cost-based adjustment, then the CPI adjustment approach will be applied. Cost-based adjustments will be based on Waste Connections’ consolidated audited financial statements for the region. Timeframes for cost-based adjustment application and review process will be ample, such that the City will have sufficient time for review and approval processes and such that the potential for delay in implementation is minimized.

- › **Extraordinary Adjustments:** The California Air Resources Board (CARB) Advanced Clean Fleets (ACF) regulation is requiring all solid waste collection trucks to be zero emissions in 2042. This includes a phased in plan to get the percentage of the fleet to be zero emission vehicle (ZEV) with 10% by 2030, 25% by 2033, 50% by 2036, 75% by 2039 and 100% by 2042. During CPI Adjustment years, Waste Connections may request extraordinary rate adjustments due to changes in law affecting collection operations, including for compliance with CARB’s ACF zero emission mandate (which may necessitate change to depreciation schedules). The City may, but is not obligated to, consider requests for extraordinary rate adjustments due to changes in law affective post-collection operations. Requests for extraordinary change are subject to good faith meet and confer negotiations between City and Waste Connections.

### Example Calculations for 2026 through 2029

R3 has prepared example calculations of projected rate adjustments for 2026 through 2029 based on the tentatively agreed to terms and conditions outlined above (including adjustment to 10% profit allowance on collection services starting in 2026). Table 12, below, demonstrates this example for the City of San Luis Obispo, and Attachment 4 provides examples for all Agencies. Note that the example in Table 12 and Attachment 4 includes the following assumptions:

- › CPI at the 5% cap (note that CPI below the 5% cap will result in lower rate adjustments)
- › Revenue reconciliation at 1% below annual rate revenue projections (note that amounts above rate revenue projections will offset rate adjustments, not add to them).
- › Discontinuance of the prior Franchise Fee grossing method on rate adjustment for all Agencies starting in 2026.

**Table 12: Example Calculation of New Rate Methodology for the City of San Luis Obispo**

	2025	2026	2027	2028	2029
Collection Services	\$8,539,055	\$8,966,008	\$9,414,308	\$9,885,024	\$10,379,275
Profit Allowance	768,515	896,601	941,431	988,502	1,037,927
Post-Collection Services	4,602,096	4,832,201	5,073,811	5,327,501	5,593,876
Franchise Fee	1,586,412	1,675,695	1,777,106	1,866,072	1,959,572
AB 939 Fee	368,041	386,443	405,765	426,053	447,356
Revenue Reconciliation Example	N/A	N/A	158,641	167,569	177,711
<b>Total Revenues</b>	<b>15,864,119</b>	<b>16,756,947</b>	<b>17,771,062</b>	<b>18,660,722</b>	<b>19,595,717</b>
<b>Indexed Rate Adjustment</b>		<b>5.63%</b>	<b>6.05%</b>	<b>5.01%</b>	<b>5.01%</b>

## Attachment 1: Summary of Waste Connections' Original 2025 Rate Application Calculations

Category		San Luis Garbage Company (SLG)	Mission Country Disposal (MCD)			South County Sanitary Service (SCSS)					
		San Luis Obispo	Los Osos	Cambria	Cayucos	Arroyo Grande	Pismo Beach	Grover Beach	Nipomo	Oceano	Avila
Current Revenues	Single Family Residential	\$ 5,282,964	\$ 2,795,167	\$ 2,201,010	\$ 987,376	\$ 2,379,516	\$ 1,598,158	\$ 1,580,148	\$ 1,570,029	\$ 684,117	\$ 91,446
	Multi-Family Dumpsters	2,556,077	-	-	-	-	-	-	-	-	-
	Non-Residential Carts	729,282	100,710	77,805	33,710	256,857	237,767	134,053	119,843	74,076	24,711
	Non-Residential Dumpsters	5,846,777	776,244	599,701	259,830	1,979,781	1,832,640	1,033,238	923,712	570,958	190,469
	<b>Total Rate Revenue</b>	<b>14,415,100</b>	<b>3,672,121</b>	<b>2,878,516</b>	<b>1,280,916</b>	<b>4,616,154</b>	<b>3,668,565</b>	<b>2,747,439</b>	<b>2,613,584</b>	<b>1,329,151</b>	<b>306,626</b>
Other Income (Allocated)	20,626	5,073	3,977	1,770	5,462	4,341	3,251	3,092	1,573	363	
<b>Total Current Revenues</b>		<b>14,435,726</b>	<b>3,677,194</b>	<b>2,882,493</b>	<b>1,282,686</b>	<b>4,621,616</b>	<b>3,672,906</b>	<b>2,750,690</b>	<b>2,616,676</b>	<b>1,330,724</b>	<b>306,989</b>
Collection Services	Labor	3,658,710	1,042,706	817,360	363,719	1,113,222	884,704	662,567	630,287	320,535	73,945
	Depreciation	1,338,367	376,989	295,515	131,502	398,063	316,350	236,919	225,376	114,616	26,441
	Insurance	1,124,499	316,418	248,035	110,374	329,978	262,241	196,396	186,828	95,012	21,919
	Other G&A	976,729	282,701	221,605	98,612	304,307	241,840	181,117	172,293	87,621	20,213
	Fuel	754,387	321,408	251,946	112,114	254,951	202,616	151,742	144,349	73,409	16,935
	Maintenance	421,166	116,487	91,312	40,633	117,432	93,326	69,893	66,488	33,813	7,800
	Corporate Overhead	246,296	46,213	36,226	16,120	93,625	74,406	55,724	53,009	26,958	6,219
	<b>Total Collection Services</b>	<b>8,520,154</b>	<b>2,502,921</b>	<b>1,961,999</b>	<b>873,074</b>	<b>2,611,578</b>	<b>2,075,482</b>	<b>1,554,357</b>	<b>1,478,629</b>	<b>751,964</b>	<b>173,473</b>
Post-Collection & Affiliated Party Services	Garbage Landfilling	2,408,278	349,264	273,782	121,831	508,314	403,969	302,538	287,798	146,361	33,765
	Organics Processing	1,108,784	477,019	373,927	166,395	660,852	525,194	393,325	374,162	190,282	43,897
	Recyclables Processing	916,880	173,112	135,700	60,385	270,385	214,881	160,927	153,087	77,853	17,960
	Affiliated Party Costs	168,154	57,121	44,776	19,925	46,128	36,659	27,455	26,117	13,282	3,064
	<b>Total Post-Collection &amp; Affiliated Party Services</b>	<b>4,602,096</b>	<b>1,056,516</b>	<b>828,185</b>	<b>368,536</b>	<b>1,485,678</b>	<b>1,180,703</b>	<b>884,245</b>	<b>841,165</b>	<b>427,778</b>	<b>98,686</b>
Pass-Through Services	Franchise Fee	1,515,042	336,540	263,809	117,393	462,296	367,397	275,149	261,744	133,111	30,708
	AB 939 Fee	362,140	5,226	4,097	1,823	-	-	-	-	-	-
<b>Total Pass-Through Services</b>		<b>1,877,182</b>	<b>341,766</b>	<b>267,905</b>	<b>119,216</b>	<b>462,296</b>	<b>367,397</b>	<b>275,149</b>	<b>261,744</b>	<b>133,111</b>	<b>30,708</b>
<b>Total Compensation for Services</b>		<b>14,999,432</b>	<b>3,901,203</b>	<b>3,058,090</b>	<b>1,360,825</b>	<b>4,559,552</b>	<b>3,623,582</b>	<b>2,713,750</b>	<b>2,581,537</b>	<b>1,312,853</b>	<b>302,866</b>
Allowed Operating Margin		641,302	188,392	170,609	65,715	227,094	180,477	135,161	111,295	65,388	15,085
<b>Total Revenue Requirement</b>		<b>15,640,734</b>	<b>4,089,595</b>	<b>3,228,699</b>	<b>1,426,540</b>	<b>4,786,646</b>	<b>3,804,059</b>	<b>2,848,911</b>	<b>2,692,832</b>	<b>1,378,241</b>	<b>317,951</b>
Surplus (Shortfall)		(1,205,008)	(412,401)	(346,206)	(143,854)	(165,030)	(131,153)	(98,222)	(76,155)	(47,518)	(10,962)
Calculated Adjustment to Rate Revenues		8.36%	11.22%	12.01%	11.22%	3.57%	3.57%	3.57%	2.91%	3.57%	3.57%
Grossing up for Franchise Fees		9.29%	12.47%	12.78%	12.47%	3.97%	3.97%	3.97%	3.23%	3.76%	3.97%

## Attachment 2: Summary of Revised 2025 Rate Application Calculations

Category	San Luis Garbage Company (SLG)	Mission Country Disposal (MCD)			South County Sanitary Service (SCSS)						
	San Luis Obispo	Los Osos	Cambria	Cayucos	Arroyo Grande	Pismo Beach	Grover Beach	Nipomo	Oceano	Avila	
Current Revenues	Single Family Residential	\$ 5,282,964	\$ 2,795,167	\$ 2,201,010	\$ 987,376	\$ 2,379,516	\$ 1,598,158	\$ 1,580,148	\$ 1,570,029	\$ 684,117	\$ 91,446
	Multi-Family Dumpsters	2,556,077	-	-	-	-	-	-	-	-	-
	Non-Residential Carts	729,282	100,710	77,805	33,710	256,857	237,767	134,053	119,843	74,076	24,711
	Non-Residential Dumpsters	5,846,777	776,244	599,701	259,830	1,979,781	1,832,640	1,033,238	923,712	570,958	190,469
	<b>Total Rate Revenue</b>	<b>14,415,100</b>	<b>3,672,121</b>	<b>2,878,516</b>	<b>1,280,916</b>	<b>4,616,153</b>	<b>3,668,565</b>	<b>2,747,439</b>	<b>2,613,584</b>	<b>1,329,152</b>	<b>306,626</b>
Other Income (Allocated)	20,626	5,073	3,977	1,770	5,462	4,341	3,251	3,092	1,573	363	
<b>Total Current Revenues</b>	<b>14,435,726</b>	<b>3,677,194</b>	<b>2,882,493</b>	<b>1,282,686</b>	<b>4,621,615</b>	<b>3,672,905</b>	<b>2,750,689</b>	<b>2,616,676</b>	<b>1,330,724</b>	<b>306,989</b>	
Collection Services	Labor	3,658,710	1,042,706	817,360	363,719	1,113,222	884,704	662,567	630,287	320,536	73,945
	Depreciation	1,125,720	317,545	248,918	110,766	336,460	267,393	200,254	190,498	96,879	22,348
	Insurance	1,124,499	316,418	248,035	110,374	329,978	262,241	196,396	186,828	95,012	21,919
	Other G&A	1,024,196	300,498	234,604	105,132	324,904	255,456	195,836	186,866	94,246	20,789
	Fuel	754,387	321,408	251,946	112,114	254,951	202,616	151,742	144,349	73,409	16,935
	Maintenance	421,167	116,487	91,312	40,633	117,431	93,326	69,893	66,488	33,813	7,800
	Corporate Overhead	430,378	80,753	63,301	28,168	163,600	130,017	97,371	92,627	47,106	10,867
<b>Total Collection Services</b>	<b>8,539,055</b>	<b>2,495,814</b>	<b>1,955,476</b>	<b>870,906</b>	<b>2,640,547</b>	<b>2,095,751</b>	<b>1,574,059</b>	<b>1,497,742</b>	<b>761,000</b>	<b>174,605</b>	
Post-Collection & Affiliated Party Services	Garbage Landfilling	2,408,278	349,264	273,782	121,631	508,314	403,969	302,538	287,798	146,361	33,765
	Organics Processing	1,108,784	477,019	373,927	166,395	660,852	525,194	393,325	374,162	190,282	43,897
	Recyclables Processing	916,880	173,112	135,700	60,385	270,385	214,881	160,927	153,087	77,853	17,960
	Affiliated Party Costs	168,154	57,121	44,776	19,925	46,128	36,659	27,455	26,117	13,282	3,064
	<b>Total Post-Collection &amp; Affiliated Party Services</b>	<b>4,602,096</b>	<b>1,056,516</b>	<b>828,185</b>	<b>368,536</b>	<b>1,485,678</b>	<b>1,180,703</b>	<b>884,245</b>	<b>841,164</b>	<b>427,779</b>	<b>98,686</b>
Pass-Through Services	Franchise Fee	1,586,412	336,540	263,809	117,393	462,296	367,397	275,149	261,744	133,111	30,708
	AB 939 Fee	368,041	-	-	12,754	-	-	-	-	-	-
<b>Total Pass-Through Services</b>	<b>1,954,453</b>	<b>336,540</b>	<b>263,809</b>	<b>130,147</b>	<b>462,296</b>	<b>367,397</b>	<b>275,149</b>	<b>261,744</b>	<b>133,111</b>	<b>30,708</b>	
<b>Total Compensation for Services</b>	<b>15,095,604</b>	<b>3,888,870</b>	<b>3,047,470</b>	<b>1,369,589</b>	<b>4,588,521</b>	<b>3,643,852</b>	<b>2,733,452</b>	<b>2,600,650</b>	<b>1,321,890</b>	<b>303,998</b>	
<b>Allowed Operating Margin</b>	<b>768,515</b>	<b>224,623</b>	<b>175,993</b>	<b>78,382</b>	<b>237,649</b>	<b>188,618</b>	<b>141,665</b>	<b>134,797</b>	<b>66,490</b>	<b>15,714</b>	
<b>Total Revenue Requirement</b>	<b>15,864,119</b>	<b>4,113,493</b>	<b>3,223,463</b>	<b>1,447,971</b>	<b>4,826,170</b>	<b>3,832,470</b>	<b>2,875,117</b>	<b>2,735,447</b>	<b>1,390,380</b>	<b>319,712</b>	
<b>Surplus (Shortfall)</b>	<b>(1,428,393)</b>	<b>(436,299)</b>	<b>(340,970)</b>	<b>(165,285)</b>	<b>(204,555)</b>	<b>(159,564)</b>	<b>(124,428)</b>	<b>(118,771)</b>	<b>(59,655)</b>	<b>(12,724)</b>	
<b>Calculated Adjustment to Rate Revenues</b>	9.89%	11.86%	11.83%	12.89%	4.43%	4.34%	4.52%	4.54%	4.48%	4.14%	
<b>Grossing up for Franchise Fees</b>		13.18%	12.59%	14.32%	4.92%	4.82%	5.02%	5.04%	4.98%	4.60%	
<b>Profit Margin on Collection Services (2025)</b>	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	
<b>Franchise Fee</b>	10.0%	10.0%	6.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
<b>Change to Original Rate Application</b>	0.60%	0.71%	-0.19%	1.85%	0.95%	0.85%	1.05%	1.81%	1.22%	0.63%	

## ATTACHMENT 3

**Consumer Price Index for All Urban Consumers (CPI-U)**  
**Original Data Value**

**Series Id:** CUUR0000SEHG02  
**Not Seasonally Adjusted**  
**Series Title:** Garbage and trash collection in U.S. city average, all  
**Area:** U.S. city average  
**Item:** Garbage and trash collection  
**Base Period:** DECEMBER 1983=100  
**Years:** 2014 to 2024

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	HALF1	HALF2	Annual Change
2014	422.440	422.483	423.413	425.393	425.242	425.930	426.562	426.771	427.327	427.995	427.808	428.187			
2015	427.734	429.248	429.235	429.807	431.234	430.813	431.229	432.967	433.843	434.829	436.428	436.996			1.46%
2016	437.205	438.296	437.699	437.676	438.317	437.858	438.607	439.358	439.707	440.311	443.343	444.745			1.71%
2017	446.266	447.699	446.987	447.129	447.272	448.046	448.328	448.717	449.008	452.196	453.820	453.596			2.20%
2018	453.354	454.915	455.230	458.722	462.887	465.041	465.579	470.457	471.026	472.535	486.650	485.935	458.358	475.364	3.96%
2019	475.687	477.474	478.569	479.449	480.865	480.984	482.138	483.987	484.346	486.133	486.485	486.708	478.838	484.966	3.22%
2020	491.003	494.429	495.288	494.432	494.946	496.679	498.564	500.882	501.756	503.315	504.970	508.190	494.463	502.946	3.49%
2021	512.722	517.270	518.505	518.579	516.440	517.202	521.185	524.408	529.934	530.114	529.053	532.538	516.786	527.872	4.74%
2022	533.078	538.313	540.719	542.564	544.546	547.554	548.187	548.706	558.254	561.090	563.816	565.185	541.129	557.540	5.17%
2023	570.412	575.697	576.773	580.124	587.431	589.812	596.167	597.347	596.997	597.569	601.631	602.164	580.042	598.646	7.28%
2024	606.773	610.551	610.015	611.073	609.538	611.946	614.089	615.880					609.983		3.71%
															<b>10-Year Average</b>
															3.69%

## Attachment 4 - Indexed Rate Adjustment Methodology Example Calculations

Example CPI 5%      5%      5%      5%

### San Luis Obispo

	2025	2025	2026	2027	2028	2029
Collection Services	\$ 8,539,055	\$ 8,539,055	\$ 8,966,008	\$ 9,414,308	\$ 9,885,024	\$ 10,379,275
Profit Allowance	768,515	768,515	896,601	941,431	988,502	1,037,927
Post-Collection Services	4,602,096	4,602,096	4,832,201	5,073,811	5,327,501	5,593,876
Franchise Fee	1,586,412	1,586,412	1,675,695	1,777,106	1,866,072	1,959,572
AB 939 Fee	368,041	368,041	386,443	405,765	426,053	447,356
Revenue Reconciliation Example	N/A	N/A	N/A	158,641	167,569	177,711
<b>Total Revenues</b>	<b>15,864,119</b>	<b>15,864,119</b>	<b>16,756,947</b>	<b>17,771,062</b>	<b>18,660,722</b>	<b>19,595,717</b>
<b>Indexed Rate Adjustment</b>			5.63%	6.05%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(158,641)	(167,569)	(177,711)	(186,607)	(195,957)

### Arroyo Grande

	2025	2025	2026	2027	2028	2029
Collection Services	\$ 2,640,547	\$ 2,640,547	\$ 2,772,575	\$ 2,911,203	\$ 3,056,763	\$ 3,209,602
Profit Allowance	237,649	237,649	277,257	291,120	305,676	320,960
Post-Collection Services	1,485,678	1,485,678	1,559,962	1,637,960	1,719,858	1,805,851
Franchise Fee	462,296	484,875	512,199	543,197	570,391	598,970
AB 939 Fee	-	-	-	-	-	-
Revenue Reconciliation Example	N/A	N/A	N/A	48,487	51,220	54,320
<b>Total Revenues</b>	<b>4,826,170</b>	<b>4,848,749</b>	<b>5,121,993</b>	<b>5,431,968</b>	<b>5,703,909</b>	<b>5,989,703</b>
<b>Indexed Rate Adjustment</b>			5.64%	6.05%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(48,487)	(51,220)	(54,320)	(57,039)	(59,897)

### Los Osos CSD

	2025	2025	2026	2027	2028	2029
Collection Services	\$ 2,495,814	\$ 2,495,814	\$ 2,620,605	\$ 2,751,635	\$ 2,889,217	\$ 3,033,677
Profit Allowance	224,623	224,623	262,060	275,163	288,922	303,368
Post-Collection Services	1,056,516	1,056,516	1,109,341	1,164,808	1,223,049	1,284,201
Franchise Fee	336,540	419,661	443,556	470,397	493,949	518,698
AB 939 Fee	-	-	-	-	-	-
Revenue Reconciliation Example	N/A	N/A	N/A	41,966	44,356	47,040
<b>Total Revenues</b>	<b>4,113,493</b>	<b>4,196,613</b>	<b>4,435,563</b>	<b>4,703,970</b>	<b>4,939,492</b>	<b>5,186,984</b>
<b>Indexed Rate Adjustment</b>			5.69%	6.05%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(41,966)	(44,356)	(47,040)	(49,395)	(51,870)

### Pismo Beach

	2025	2025	2026	2027	2028	2029
Collection Services	\$ 2,095,751	\$ 2,095,751	\$ 2,200,539	\$ 2,310,566	\$ 2,426,094	\$ 2,547,399
Profit Allowance	188,618	188,618	220,054	231,057	242,609	254,740
Post-Collection Services	1,180,703	1,180,703	1,239,738	1,301,725	1,366,811	1,435,152
Franchise Fee	367,397	385,008	406,703	431,316	452,909	475,602
AB 939 Fee	-	-	-	-	-	-
Revenue Reconciliation Example	N/A	N/A	N/A	38,501	40,670	43,132
<b>Total Revenues</b>	<b>3,832,470</b>	<b>3,850,080</b>	<b>4,067,035</b>	<b>4,313,165</b>	<b>4,529,095</b>	<b>4,756,025</b>
<b>Indexed Rate Adjustment</b>			5.64%	6.05%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(38,501)	(40,670)	(43,132)	(45,291)	(47,560)



**Cambria CSD**

	2025	2025	2026	2027	2028	2029
Collection Services	\$ 1,955,476	\$ 1,955,476	\$ 2,053,250	\$ 2,155,912	\$ 2,263,708	\$ 2,376,894
Profit Allowance	175,993	175,993	205,325	215,591	226,371	237,689
Post-Collection Services	828,185	828,185	869,595	913,074	958,728	1,006,664
Franchise Fee	263,809	188,914	199,670	211,664	222,261	233,395
AB 939 Fee	-	-	-	-	-	-
Revenue Reconciliation Example	N/A	N/A	N/A	31,486	33,278	35,277
<b>Total Revenues</b>	<b>3,223,463</b>	<b>3,148,569</b>	<b>3,327,840</b>	<b>3,527,727</b>	<b>3,704,346</b>	<b>3,889,920</b>
<b>Indexed Rate Adjustment</b>			5.69%	6.01%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(31,486)	(33,278)	(35,277)	(37,043)	(38,899)

**Grover Beach**

	2025	2025	2026	2027	2028	2029
Collection Services	\$ 1,574,059	\$ 1,574,059	\$ 1,652,762	\$ 1,735,400	\$ 1,822,170	\$ 1,913,278
Profit Allowance	141,665	141,665	165,276	173,540	182,217	191,328
Post-Collection Services	884,245	884,245	928,457	974,880	1,023,624	1,074,805
Franchise Fee	275,149	288,885	305,166	323,634	339,836	356,864
AB 939 Fee	-	-	-	-	-	-
Revenue Reconciliation Example	N/A	N/A	N/A	28,889	30,517	32,363
<b>Total Revenues</b>	<b>2,875,117</b>	<b>2,888,854</b>	<b>3,051,661</b>	<b>3,236,343</b>	<b>3,398,364</b>	<b>3,568,639</b>
<b>Indexed Rate Adjustment</b>			5.64%	6.05%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(28,889)	(30,517)	(32,363)	(33,984)	(35,686)

**Nipomo CSD**

	2025	2025	2026	2027	2028	2029
Collection Services	\$ 1,497,742	\$ 1,497,742	\$ 1,572,629	\$ 1,651,261	\$ 1,733,824	\$ 1,820,515
Profit Allowance	134,797	134,797	157,263	165,126	173,382	182,051
Post-Collection Services	841,164	841,164	883,223	927,384	973,753	1,022,441
Franchise Fee	261,744	274,856	290,346	307,917	323,333	339,533
AB 939 Fee	-	-	-	-	-	-
Revenue Reconciliation Example	N/A	N/A	N/A	27,486	29,035	30,792
<b>Total Revenues</b>	<b>2,735,447</b>	<b>2,748,559</b>	<b>2,903,461</b>	<b>3,079,173</b>	<b>3,233,326</b>	<b>3,395,332</b>
<b>Indexed Rate Adjustment</b>			5.64%	6.05%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(27,486)	(29,035)	(30,792)	(32,333)	(33,953)

**Oceano CSD**

	2025	2025	2026	2027	2028	2029
Collection Services	\$ 761,000	\$ 761,000	\$ 799,050	\$ 839,002	\$ 880,953	\$ 925,000
Profit Allowance	68,490	68,490	79,905	83,900	88,095	92,500
Post-Collection Services	427,779	427,779	449,168	471,626	495,207	519,968
Franchise Fee	133,111	139,697	147,569	156,500	164,335	172,569
AB 939 Fee	-	-	-	-	-	-
Revenue Reconciliation Example	N/A	N/A	N/A	13,970	14,757	15,650
<b>Total Revenues</b>	<b>1,390,380</b>	<b>1,396,966</b>	<b>1,475,692</b>	<b>1,564,998</b>	<b>1,643,347</b>	<b>1,725,686</b>
<b>Indexed Rate Adjustment</b>			5.64%	6.05%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(13,970)	(14,757)	(15,650)	(16,433)	(17,257)

**Cayucos SD**

	2025	2025	2026	2027	2028	2029
Collection Services	\$ 870,906	\$ 870,906	\$ 914,452	\$ 960,174	\$ 1,008,183	\$ 1,058,592
Profit Allowance	78,382	78,382	91,445	96,017	100,818	105,859
Post-Collection Services	368,536	368,536	386,962	406,311	426,626	447,957
Franchise Fee	117,393	147,842	156,250	165,705	174,002	182,720
AB 939 Fee	12,754	12,754	13,392	14,061	14,764	15,503
Revenue Reconciliation Example	N/A	N/A	N/A	14,784	15,625	16,571
<b>Total Revenues</b>	<b>1,447,971</b>	<b>1,478,420</b>	<b>1,562,501</b>	<b>1,657,053</b>	<b>1,740,019</b>	<b>1,827,202</b>
<b>Indexed Rate Adjustment</b>			5.69%	6.05%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(14,784)	(15,625)	(16,571)	(17,400)	(18,272)

**Avila Beach CSD**

	2025	2025	2026	2027	2028	2029
Collection Services	\$ 174,605	\$ 174,605	\$ 183,335	\$ 192,502	\$ 202,127	\$ 212,234
Profit Allowance	15,714	15,714	18,334	19,250	20,213	21,223
Post-Collection Services	98,686	98,686	103,620	108,801	114,241	119,953
Franchise Fee	30,708	32,112	33,921	35,974	37,775	39,667
AB 939 Fee	-	-	-	-	-	-
Revenue Reconciliation Example	N/A	N/A	N/A	3,211	3,392	3,597
<b>Total Revenues</b>	<b>319,712</b>	<b>321,117</b>	<b>339,210</b>	<b>359,738</b>	<b>377,748</b>	<b>396,675</b>
<b>Indexed Rate Adjustment</b>			5.63%	6.05%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(3,211)	(3,392)	(3,597)	(3,777)	(3,967)

**Total**

	2025	2025	2026	2027	2028	2029
Collection Services	\$ 22,604,956	\$ 22,604,956	\$ 23,735,204	\$ 24,921,964	\$ 26,168,062	\$ 27,476,465
Profit Allowance	2,034,446	2,034,446	2,373,520	2,492,196	2,616,806	2,747,647
Post-Collection Services	11,773,587	11,773,587	12,362,266	12,980,380	13,629,399	14,310,869
Franchise Fee	3,834,558	3,948,262	4,171,077	4,423,411	4,644,863	4,877,591
AB 939 Fee	380,795	380,795	399,835	419,826	440,818	462,859
Revenue Reconciliation Example	N/A	N/A	N/A	407,420	430,419	456,452
<b>Total Revenues</b>	<b>40,628,342</b>	<b>40,742,046</b>	<b>43,041,902</b>	<b>45,645,198</b>	<b>47,930,367</b>	<b>50,331,883</b>
<b>Indexed Rate Adjustment</b>			5.65%	6.05%	5.01%	5.01%
Revenue Surplus (Shortfall) Example	-1%	(407,420)	(430,419)	(456,452)	(479,304)	(503,319)